State of Rhode Island and Providence Plantations

STATE INVESTMENT COMMISSION

Regular Meeting December 6, 2007

A State Investment Commission (SIC) meeting was held in Room 135, State House, Providence, Rhode Island on Thursday, December 6, 2007. The Treasurer called the meeting to order at 9:10 a.m.

Membership Roll Call. Present were: Mr. Michael Costello, Ms. Rosemary Booth Gallogly, Mr. Robert Giudici, Dr. Robert McKenna, Ms. Marcia Reback, Mr. Andrew Reilly, Mr. John Treat, and General Treasurer Frank T. Caprio. Also present were: Mr. Kenneth E. Goodreau, Deputy General Treasurer for Finance; Mr. Brian Gallogly, Esq., of Brown Rudnick Berlack Israels, Legal Counsel to the Commission; Mr. William Bensur, of Wilshire Associates Incorporated, General Consultant to the Commission; Ms. Lisa Tyrrell of the State Street Corporation; Ms. Michelle Davidson, of Pacific Corporate Group (PCG), Alternative Investments Consultant to the Commission; and other members of the Treasurer's staff. Mr. Robert Gaudreau was not present.

State Investment Commission Minutes. The Treasurer entertained a motion for approval of the minutes. Ms. Reback moved, Ms. Gallogly seconded and the motion was passed. The following members voted in favor: Mr. Costello, Ms. Gallogly, Mr. Giudici, Dr. McKenna, Ms.

Reback, Mr. Reilly, Mr. Treat, and Treasurer Caprio.

VOTED: To approve the Minutes of the October 24, 2007 regular meeting.

Wilshire Associates Incorporated – Capital Markets Review. Prior to Mr. Bensur presenting his overview, Teasurer Caprio commented on a local press release made on December 5, 2007 regarding the action the Commission took last March to move collateral in a fund in the Securities Lending Program to a high quality, government oriented securities fund. The former fund was allowed under the guidelines, but is now not in favor because of investments in many mortgage and asset backed securities. He congratulated the Staff and Commission for making this decision. He also stated that the financial press and rating agencies are now surveying each state's cash and bond holdings. He concluded by stating that our portfolio is in a very favorable position, as there is no exposure to the sub prime investments which the press and rating agencies are concerned with. He then asked Mr. Bensur to proceed with the Capital Market Review.

Mr. Bensur began his overview by stating that the Bank of England has reduced their lending rate by 25 basis points which will help global trading. President Bush will be announcing a plan to provide some relief for the sub prime situation. As of December 3, 2007 the Federal Funds Rate was 4.50%. Mr. Bensur believes the Federal

Reserve will cut rates an additional 25 to 50 basis points at their next meeting. The market has been very volatile both in the U.S. and abroad. The first two weeks of November were very negative and the market fell about 10% but regained approximately 5% in the last two weeks of the month. Mr. Bensur stated that recently the TIPS portfolios have performed very well, as there has been a reduction of real interest rates in anticipation of the reduction in inflation. This allocation within ERSRI's portfolio has performed in excess of expectations.

The U.S. market is up about 6.5% through December 5, 2007. Large cap stocks have out performed small cap stocks. Mr. Bensur observed that emerging markets have continued to outperform developed markets; emerging markets are up approximately 43.5% as of December 5, 2007. U.S equity is at 6.5% which is slightly under the expectation of 8%. Non-U.S. equity is up about 18% which is considerably higher than expectations. Fixed income was expected to be up 5% but is slightly higher than anticipated at 7%.

Treasurer Caprio stated that the Commission had decided to exit half of the high yield portfolio during the first quarter of 2007 which has been a favorable decision. Mr. Bensur stated that the Staff and Commission members collectively reached the decision that the spreads did not adequately compensate for the risks associated with the high yield market. As spreads return to normal levels the Commission may consider re-entering this market.

Mr. Bensur went on to discuss asset allocation within the portfolio as compared to other large public pension funds. The U.S. equity portion of the portfolio is on target; the non-U.S equity portion is slightly higher than the average observation; fixed income is slightly lower as the allocations are moving more toward real estate and private equity investments; cash was about 5.5% as of September 1, 2007. Performance has been very solid for the quarter. Year to date the portfolio has performed in the top quartile as compared to other large public pension funds. Mr. Bensur stated that the non-U.S equity portion of the portfolio should be monitored to ensure a successful investment program. He then went on to give a review of The Boston Company who has been managing a portion of the portfolio's non-U.S. equity.

Manager Continuation Policy Analysis & Review – The Boston Company. Mr. Bensur stated that the non-U.S. equity allocation of the portfolio, since last reviewed, had a poor performance. Although the non-U.S. equity market went up 5.5% in October, our portfolio went up only 3.5%. The market was off approximately 4.5% in November; the Boston Company was up about 70 basis points over that benchmark. As discussed in the October SIC Meeting, The Boston Company seems to perform more favorably in down markets. Mr. Bensur remarked that The Boston Company is a good compliment statistically to our other two managers. He stated he is not sure this is the right time to exit The Boston Company, but a temporary

alternative would be to have this allocation rolled into an index fund.

Mr. Guidici asked how the weakness of the dollar is affecting the portfolio. Mr. Bensur replied that it is necessary to have diversification. When the U.S. dollar weakens the portion of the portfolio in non U.S. equities does well; when the dollar strengthens the U.S. equity allocation does well. This is why exposure to many different investment strategies is important to earning the desired rate of return.

Proposed Investment in WLR Recovery Fund IV, L.P. Treasurer Caprio first stated that in his tenure with the Commission this is the first time the CEO – Chairman of a fund of this size has attended the SIC Meeting. He thanked Mr. Ross for his participation.

Ms. Michelle Davidson of PCG then began an overview of WLR Recovery Fund IV. WL Ross Company has set a target of $2.5 billion and has committed to a $4 billion cap for Fund IV. The Firm typically invests in companies in bankruptcy or reorganization. The Firm focuses on industries that have fallen out of favor with investors such as the auto, textile, natural resources and financial services industries. Mr. Ross is one of the pioneers and industry leaders in bankruptcy, restructuring, and privatization services. Many of the professionals at WL Ross Company began working together in 1976 while at Rothschild Inc. and have been together for more than a

decade. In late 1997 they organized the Rothschild Recovery Fund, which was later renamed WLR Recovery Fund (Fund 1). The three previous distressed funds have all returned 25% net IRRs. The management fee of 1.5% on committed capital with a subsequent step-down to1% is beneficial to the limited partners. Fund IV will have the ability to invest up to 50% in non-U.S. companies. Fund IV will primarily be managed by the Firm's New York based professionals in conjunction with its India based team and affiliates.

Mr. Costello asked how much committed exposure the portfolio has to this type of distressed investment and to date how much has been funded. Ms. Davidson replied approximately 7% of the Private Equity portfolio has been committed and approximately 5% has been funded.

There being no further questions from the Commission, Treasurer Caprio introduced Wilbur L. Ross, Jr., CEO – Chairman of WLR Ross & Company. Mr. Ross began by addressing the sub prime situation and explaining how distressed investing can be favorable due to the historically large amount of high yield paper in the market today. In addition, many economists believe that credit default rates are cyclical and inevitably there will be a correction from the current highs. When the correction does occur, a large amount of opportunity may result for distressed private equities practitioners.

One example of this type of investment within WLR Recovery Fund IV

is American Home Mortgage (AHM), a mortgage service provider licensed in all fifty states. As a mortgage service provider, AHM administers a mortgage: calculating principal and interest, collecting payments from the mortgagor, and acting as an escrow agent. AHM has historically been regarded as a good quality service provider and prior to the sub prime debacle was highly valued. WL Ross & Company was able to buy the platform at a significant discount. This is a very attractive investment as the mortgage servicing business today is actually worth more because the loan portfolio will be longer lived than in an environment where borrowers found it easier to resell or refinance their homes.

Mr. Ross went on to explain the strategy used in the year 2000 to purchase and restructure the failed Kofuku Bank in Japan. WLR Ross & Company syndicated participation to AIG, State of Wisconsin, and Franklin Templeton. They installed new management, added stock ownership and cash bonuses as incentives, refocused marketing strategies, and introduced new products such as ATM/credit cards. The result was an 18% increase in equity which was double that of most Japanese Banks. The bank was sold in 2002 with a cash on cash multiple of 1.9x in two years.

The next investment Mr. Ross summarized was International Steel Group ("ISG") acquired in Fund I. This was a $40 million investment that returned over 12x. Through ISG, WL Ross Company acquired a number of steel mills in the U.S., helping to consolidate a highly fragmented industry. The firm was instrumental in negotiating new labor contracts with union workers, reducing the unit cost of production in the process and creating North America's largest and lowest cost integrated steel maker.

Mr. Ross proceeded to give an overview of International Automotive Components ("IAC") Group. He explained that WL Ross Company created this platform consisting of four global companies which combined has approximately $5 billion of revenues and no net debt. The Company has fifty seven facilities employing twenty one thousand people in seventeen countries. Auto manufacturers are trying to reduce the number of suppliers and have more collaborative relationships; IAC Group is filling this niche. Mr. Bensur asked if Delphi was part of this group. Mr. Ross stated Delphi was not as they have a weak position in the segments of the automotive industry that IAC Group is interested in acquiring.

Mr. Treat asked if the service fees American Home Mortgage charges the consumer will decline due to the large amount of expected foreclosures. Mr. Ross responded that since AHM is not the mortgagee and is only collecting fees associated with the mortgage, such as late fees, this investment in Fund IV will continue to be profitable.

Mr. Ross concluded by stating that WL Recovery Fund IV will not entertain any investment deals that are larger than the pocketbook of

the fund. The Company has consistently generated low loss ratios through the previous three funds. They have global representation through their investment professionals in New York, Tokyo, and Mumbai. Mr. Ross continued by stating that Fund IV is complementary to ERSRI's current alternative investments and will provide the overall portfolio with an increased exposure to diversification.

Treasurer Caprio entertained a motion for investment in WLR Recovery Fund IV.

Ms. Reback moved, Mr. Costello and Mr. Reilly seconded, and the motion was passed. The following members voted in favor: Mr. Costello, Ms. Gallogly, Mr. Giudici, Dr. McKenna, Ms. Reback, Mr. Reilly, Mr. Treat, and Treasurer Caprio.

VOTED: To invest up to $20 million in WLR Recovery Fund IV, contingent upon satisfactory review and negotiation of investment and other legal documents.

Legal Counsel Report. Mr. Brian Gallogly from Brown, Rudnick, Berlack Israels, LLP, legal counsel to the Commission, indicated there were no legal developments for the month.

Deputy Treasurer for Finance Report. Mr. Goodreau commented that WLR Recovery Funds are an exemplary example of what private equity is all about. Mr. Ross's methodology is a true non-correlated

asset class. WL Ross Recovery Funds have performed well despite not being based on heavy leverage; it is a true non-correlated and non-cyclical type of fund. Private equity should be more about building early stage companies rather than financial mechanics.

Mr. Costello stated that he felt the Commission should begin to revisit the size of the commitments we make to funds within the portfolio. While not dismissing smaller funds which can be very profitable, large funds should have a committed investment of at least $15 to $50 million. Mr. Goodreau agreed with Mr. Costello and further commented that he, along with Ms. Davidson, Mr. Reilly and the Treasurer, have been addressing the issue of extending or exiting the aged funds within the portfolio. He commented that managing and administering such funds has become an issue as they get closer to maturity. The goal is to sweep out old funds that are dragging on the IRR and get larger commitments to quality funds such as WLR Recovery IV. Mr. Goodreau stated this does not mean making radical changes in the portfolio, but rather monitoring those funds that go beyond ten years and looking toward new opportunities.

Mr. Reilly stated that this is the first time the portfolio has had a large portion of aged funds nearing maturity. The overall IRR on these funds has been very good. However, moving forward we should be looking at larger and higher caliber investments. Mr. Reilly mentioned that there is a great deal of administrative and legal costs associated with an exit or extension to a fund.

Mr. Treat asked what the administrative costs are in association with termination or extension of a mature fund and how it impacts the portfolio. Mr. Goodreau explained that according to the new FASB rules, private equity will come under the same scrutiny as other investments regarding fair market value. It is costly in dollar amount but has a bigger impact on our limited staff and budget issues. Although it is difficult to quantify it has to be addressed. Treasurer Caprio stated that State Street Bank & Trust has recently provided an additional service associated with monitoring private equity investments and FASB rules.

Treasurer Caprio agreed that the February 2008 Agenda should address the issue of liquidating the aged funds discussed at this meeting, adding that we should have a bid in place by that time. If the Commission decides to accept the bid the funds will be liquidated.

Mr. Goodreau read an excerpt explaining the changes to the terms of the Rhode Island 529 College Bound Fund, as follows: "Participants who choose an Age-Based Education Strategies Portfolio for a Beneficiary born on or after January 1, 2008 will have their Accounts allocated first to Age-Group Category 1 and thereafter treated in a manner corresponding to that reflected in Schedule 3 to the Program Description. The aggregate annual Underlying Portfolio expenses and program maintenance fee for the Age-Based Aggressive 2008-2010 and the Age-Based 2008-2010 investment options are

0.94% and 0.92%, respectively, excluding any applicable distribution fee, which varies based upon the sales charge alternative selected by the Participant." Dr. McKenna remarked that Rhode Island's Fund was rated top in the country.

Treasurer Caprio entertained a motion to approve the changes in selected options for Rhode Island 529 College Bound Fund. Ms. Gallogly moved, Mr. Costello seconded and the motion was passed. The following members voted in favor: Mr. Costello, Ms. Gallogly, Mr. Giudici, Dr. McKenna, Ms. Reback, Mr. Reilly, Mr. Treat, and Treasurer Caprio.

VOTED: To approve the various changes in options to be selected by investors for The Rhode Island 529 College Bound Fund.

Mr. Goodreau thanked the Commission for approving the transfer of $100 million through State Street Bank & Trust from the cash account to the technical equity pool. Although it is too early to claim a victory, he is encouraged with the positive results we have already seen. He again thanked the Commission for their feedback and cooperation.

Treasurer's Report. Treasurer Caprio expressed his sorrow after hearing that Mr. Frank Blaschka, Consultant for Real Estate Investments, The Townsend Group, had passed away. A package was sent along with condolences to The Townsend Group.

Dr. McKenna requested a schedule for the 2008 SIC Meetings. Treasurer Caprio assured the Commission members that a schedule for the 2008 SIC Meetings will be available shortly.

New Business. There being no questions and no new business, Treasurer Caprio entertained a motion to adjourn the meeting. Ms. Reback moved, Dr. McKenna seconded and the motion was passed. The following members voted in favor: Mr. Costello, Ms. Gallogly, Mr. Giudici, Dr. McKenna, Ms.Reback, Mr. Reilly, Mr. Treat, and Treasurer Caprio.

VOTED: To adjourn the meeting

There being no further business, the meeting was adjourned at 10:45 a.m.

Respectfully submitted,

Frank T. Caprio
General Treasurer